

PAKISTAN-AZERBAIJAN
ECONOMIC & BILATERAL
RELATIONS



ACKNOWLEDGEMENT

In the name of Allah Almighty the most Beneficial and Merciful, all our strengths and expertise are His blessings and nothing can be achieved without His will.

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Research and Development Department

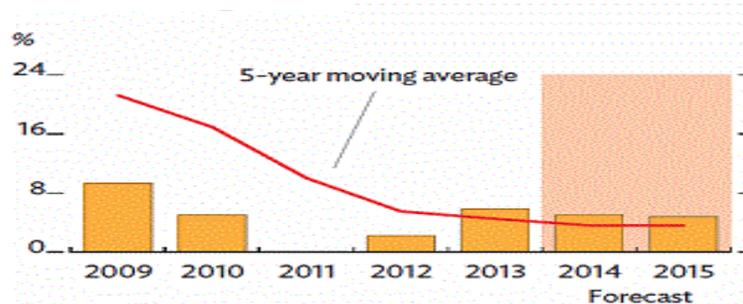
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Azerbaijan Overview:

The Republic of Azerbaijan is a neighboring transcontinental presidential republic in the Caucasus region, situated at the crossroads of Eastern Europe and Western Asia. It is surrounded by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Armenia to the west and Iran to the south. The Azerbaijan Democratic Republic declared its independence in 1918¹ and has the distinction as the first Muslim-majority democratic and secular republic.

Azerbaijan, also known as the “Land of Fire”, is a country with a fascinating history and unique cultural heritage. Historically, the country has been both a Soviet Republic and a part of Persia. The country regained its independence from the Soviet Union in 1991, and modern Azerbaijan has emerged as a Western-looking, independent, secular state with a vibrant and diverse culture. The country is the gateway between East and West, sitting on the edge of Europe and Western Asia. Azerbaijan played an important role as part of the Silk Road and is now equally important as part of the Transport Corridor Europe–Caucasus–Asia (TRACECA) Project.

The Constitution of Azerbaijan does not declare an official religion, and all major political forces in the country are secularist, but the majority of people are attaching to Shia Islam. Azerbaijan has a high level of human development, as an increase in income and reduction in poverty in Azerbaijan. It has a high rate of economic development and literacy, as well as a low rate of unemployment. In past years, Azerbaijan faced many economic challenges but the current situation showed Azerbaijan’s need for a diversified economy, market-based policies and better social services. As there is continues decrease in the poverty rate in Azerbaijan. But on the other hand their revenue from oil and gas are likely to stagnate over the coming decade and then to decline, so the country must diversify to strengthen its economic position. The new natural gas fields coming into production are unlikely to compensate for the revenues that the oil sector has provided. The country’s geographical position makes it an important link between the Black and Caspian Seas and between Russia and Iran. Achieving Azerbaijan’s potential as a transit economy is essential for the motivation of economic growth, non-oil economic development, and safety and for the reduction of poverty. Improvement of the road network has been identified as one of the priorities for production diversification for the country. The World Bank supports the Azerbaijan government’s education reform program through investment operations and policy advice. Other than oil, gas, education etc. agriculture is a meaningful component of Azerbaijan’s non-oil economy and has significant potential for boosting export revenues for the country. While the sector only accounts for 7 percent of GDP². Growth accelerated to 5.8% in 2103 from 2.2% a year earlier, reflecting recovery in the oil sector and continued growth in the rest of the economy. Growth is projected to moderate to 4%-5% in 2014 and 2015 as industry grows more slowly



Sources: Central Bank of the Republic of Azerbaijan. <http://www.cbar.az> (accessed 18 March 2014); ADB estimates.

¹ <http://en.wikipedia.org/wiki/Azerbaijan>

² <http://www.worldbank.org/en/country/azerbaijan/overview>

Economic Indicators of Azerbaijan:

Economic indicators	(In 2013)
Population	9.417 million
Current GDP	73.56 million US\$
GDP per capita	7811.8 US\$
GDP Growth Rate	5.8%
GNP Per Capita, PPP (Current International \$)	\$ 16,180
Gross Savings (% of GDP)	42% (2012)
Inflation (GDP Deflator %)	1.0%
Inflation (Consumer prices %)	2.4%
FDI, Net Inflows (BOP, Current US\$)	US\$ 2,619,437,000
Export of Goods & Services (% of GDP)	48%
Imports of Goods & Services (% of GDP)	26.9%
Deposit Interest Rate	9.9%
Lending Interest Rate	18.2%
(Source) http://www.worldbank.org	

Pakistan Overview:

Pakistan has great strategic importance and development potential. Pakistan officially the “**Islamic Republic of Pakistan**” is a sovereign country in South Asia. With a population of 182 million, it is the 6th most populous country and with an area covering 796,095 km² (307,374 sq mi), it is the 36th largest country in the world in terms of area. Pakistan has a 1,046-kilometre (650 mi) coastline along the Arabian Sea and the Gulf of Oman in the south and is bordered by India to the east, Afghanistan to the west, Iran to the southwest and China in the far northeast. It is separated from Tajikistan by Afghanistan's narrow Wakhan Corridor in the north, and also shares a marine border with Oman. The country is located at the crossroads of South Asia, Central Asia, China and the Middle East and is thus at the fulcrum of a regional market with a vast population, large and diverse resources, and untapped potential for trade.³

Pakistan is currently undergoing a process of economic liberalization with privatization of many government corporations in order to attract foreign investment and to decrease the budget deficit. The economy of Pakistan is the 26th largest in the world in terms of purchasing power parity (PPP), and 44th largest in terms of nominal GDP and GDP per capita is \$ 4,141 ranking 140th in the world⁴. Pakistan ranks as the 15th largest trader of goods in the world and 6th largest trader of services⁵. Major industries include textiles (garments, bed linen, cotton cloth, and yarn), chemicals, food processing (mainly sugar, salt, wheat, rice, and fruit), agriculture, fertilizer, cement, Surgical, sports goods, leather articles, dairy and rugs. It has a semi-industrialized economy with a well-integrated agriculture sector. The increasing proportion of Pakistan's working-age population provides the country with a potential demographic dividend but also with the critical challenge to provide adequate services and increase employment as well as it faces many significant internal economic challenges in the way of its growth and development.

³ <http://en.wikipedia.org/wiki/Pakistan>

⁴ <http://prideofpakistan.com/pakistaniproducts.php>

⁵ http://en.wikipedia.org/wiki/Economy_of_Pakistan

Economic Indicators of Pakistan:

Economic indicators	(In 2013)
Population	182.1 million
Current GDP	232.3 billion
GDP per capita	1275.3 US\$
GDP Growth Rate	4.4%
GNP Per Capita, PPP (Current International \$)	4840 US\$
Gross Savings (% of GDP)	21%
Inflation (GDP Deflator %)	7.4%
Inflation (Consumer prices %)	7.7%
FDI, Net Inflows (BOP, Current US\$)	1,307,000,000 US\$
Export of Goods & Services (% of GDP)	13.2%
Imports of Goods & Services (% of GDP)	19.9%

(Resource) <http://www.worldbank.org>

Pakistan-Azerbaijan Trade Relations:

Pakistan was the third country after Turkey and Romania that recognized Azerbaijan immediately and built diplomatic ties after its independence from USSR in 1991. Pakistan-Azerbaijan completed more than 22 years of bilateral relationship. The cooperation between the two states extends to every sphere ranging from political, economic, technological, security to cultural arenas. Azerbaijan and Pakistan are enjoying good relations that describes them as “friendly and brotherly” countries. Pakistan extended assistance of US\$ 1 million to newly independent brother country Azerbaijan, and initially for capacity development organized free courses and trainings for professionals of Azerbaijan in different domains e.g. in the field of diplomacy alone, today Azerbaijan has its 44 diplomats trained from Pakistan Foreign Service Academy. Pakistan has an embassy in Baku and Azerbaijan has an embassy in Islamabad. Relations date back when both nations were part of the Persian Empire and the countries have the same cultural traditions in common especially because of deep Turanian and Persian influences in the two countries. Over the years trade and cooperation has gradually grown between the two nations. Azerbaijan and Pakistan "enjoy strategic partnership relations" as both the countries are contributing in military. The two countries do share common values in terms of culture and religion; however, there exists tangible variance in the domains of infrastructure development, education system, political set-up and economic policies. In many diplomatic high level visits and meetings, few prominent among many significant developments that have contributed towards cementing of the ties between the two states are; formation of Joint Ministerial Commission cultural forums like Pakistan-Azerbaijan Friendship Association, existence of Multani Caravanserai in Ichiri Sheher Baku, reconstruction of the High School for Girls donated by the Heydar Aliyev Foundation of Azerbaijan in Azad Jammu and Kashmir and the adoption of resolution by Foreign Relations Committee of Senate of Pakistan recognizing Khojaly massacre as genocide and demanding Armenia to leave Azerbaijan’s internationally recognized territory of Nagorno-Karabakh and its adjacent regions.

A unique attribute of Pakistan-Azerbaijan bilateral relationship is strong support that both the states extend to each other on issues of mutual interest. For example, seeing the violence in terms of massacre of hundreds of Azerbaijanis in Khojaly and occupation of Nagorno-Karabakh and adjacent territories by Armenia during the Nagorno-Karabakh conflict, Pakistan has always backed Azerbaijan. Pakistan has neither till date recognized Armenia nor has established any kind of diplomatic relations, and at every international forum it has supported Azerbaijan.

Bilateral Trade:

The level of annual trade between the two countries in the last many years does not correspond with the level of existing mutual political and economic goodwill between the two nations in many products.

1. Export to Azerbaijan:

Product label	Pakistan's exports to Azerbaijan US \$ (Thousands)		
	Value in 2011	Value in 2012	Value in 2013
All products	14789	15413	49694
Cereals	3083	7944	39996
Edible fruit, nuts, peel of citrus fruit, melons	3474	842	3579
Oil seed, oleagif fruits, grain, seed, fruit, etc, nes	24	299	2269
Manmade staple fibres	1169	1170	1530
Cotton	735	470	454
Other made textile articles, sets, worn clothing etc	259	935	321
Pharmaceutical products	211	363	317
Optical, photo, technical, medical, etc apparatus	996	698	235
Articles of apparel, accessories, knit or crochet	294	285	175
Explosives, pyrotechnics, matches, pyrophorics etc.	1	0	171
Impregnated, coated or laminated textile fabric	29	166	140
Carpets and other textile floor coverings	113	170	118
Machinery, nuclear reactors, boilers, etc	65	2	69
Manmade filaments	98	16	54
Edible vegetables and certain roots and tubers	3993	44	54
Sources: ITC calculations based on UN COMTRADE statistics.			

2. Import to Azerbaijan:

Product label	Pakistan's imports from Azerbaijan (US \$ Thousands)				
	Value in 2009	Value in 2010	Value in 2011	Value in 2012	Value in 2013
All products	28	36	1	0	58
Vegetable, fruit, nut, etc food preparations	0	0	0	0	58
Sources: ITC calculations based on UN COMTRADE statistics.					

The above two tables show the trade (export and import) with Azerbaijan. We have almost no import from Azerbaijan in previous years except in Vegetable, fruit, nut, etc food preparations etc. There are a lot of other products which are traded by Pakistan with the whole world, but there is no trade with Azerbaijan.

Obstacle in Bilateral Trade:

- In the beginning, direct airlines were established by Pakistan International Airlines but later on it was not financially viable for the Airline to carry on the flights thus after 3 years the airline services were terminated. There is no direct b2b link therefore; there are no effective business dealings among businessmen in both the countries.
- Since the time of establishment of relations, Pakistan-Azerbaijan Joint Ministerial Commission has also been established. Over 30 Memorandum of Understandings (MOU's) have been signed but most of them have not been followed up.
- There is lack of proper communication and effective linkages between the local business communities of both the countries.
- There are a number of Greenfield as well as investment & trade opportunities enhancing effective economic linkages among the two countries but unfortunately the Governments at both ends fails to anticipate such initiatives. Furthermore, there is lack of awareness about the shining opportunities in both the Governments and business communities.
- There is absence of joint Chamber of Commerce and Industry of both the countries.
- Foreign mission abroad are not being able to establish the effective linkages with all the local chambers in Pakistan and they are not playing an effective role to create awareness about our potential products through marketing.

Bilateral Opportunities:

Bilateral relations between Pakistan and Azerbaijan are constantly on the move. Exchange of visits of Azerbaijan and Pakistani leaders as well as the other high level delegations played a pivotal role in cementing the links between the countries and people alike. Agreements in political, economic, strategic, social, humanitarian, cultural and other sectors signed during these visits formed a solid legislative base.

There exist incredible opportunities for Azerbaijani and Pakistani investors in each other's country. In terms of economic relations between Azerbaijan and Pakistan, there exist multiple unutilized opportunities that could have been worked well for strengthening the relations between the two states.

- The level of annual trade between the two countries in the last 5 years remained between US\$ 17 to 25 million only, which does not correspond with the level of existing mutual political goodwill between the two nations in many products.⁶
- As the economy is getting global in its outlook, states are removing non-tariff barriers to trade referred to trade in goods, services and factors of production; Pakistan and Azerbaijan can follow this tradition too. This will create smooth way of trade and healthy competition in the market among the products coming from various countries.
- In Pakistani side, the opportunities are including; firstly multiple joint ventures can be introduced in the field of pharmaceuticals. Pakistan has proven expertise in the field thus; both the Governments can facilitate companies to get registered to make them able to introduce their products.
- The industry is one of the most developed areas in Azerbaijan. It covers fuel and energy, chemistry, mechanical engineering, metallurgy, food industry, light industry and other areas.

⁶ <http://www.ipripak.org/pakistan-azerbaijan-bilateral-ties-options-for-future-strategy/>

Azerbaijan began to manufacture cash registers, micro calculators, telephones, consumer electronics, plastic doors and windowpanes, oil pipes and other products. The manufacturing of numerous products, which were previously imported from foreign countries by Azerbaijan, therefore Pakistan has the option to acquire the expertise of Azerbaijan in above cited industrial fields and do something economically beneficial jointly.

- In addition, Pakistan's textile industry has massive potential and it is contributing 9.5% share to country's GDP. Pakistan is the 8th largest exporter of textile products in Asia. Moreover, Pakistan is the 4th largest producer of cotton with the third largest spinning capacity in Asia after China and India, and contributes 5% to the global spinning capacity. Seeing the market consumption demand for textiles in Azerbaijan, multiple measures can be taken to maximize the opportunity.
- The construction sector is one of the fastest growing areas of Azerbaijan's economy as it is in process of constructing huge buildings and a new island that provide investment opportunity of about \$130 billion.
- Pakistan also produces quality sports goods. This year 42 million soccer balls worth Rs. 17.473 million have been exported from Sialkot for the FIFA Football World Cup 2014 which was held in Brazil. Pertaining to First European Games 2015 going to be held in Baku, proposals can be initiated by Pakistan for Azerbaijan to import sports good from Pakistan.
- Coming over to opportunities that Azerbaijan hold for Pakistan, again they are many. In Pakistan the demand of Petroleum and oil products is increasing and presently it is meeting those demands via Gulf Market. As Azerbaijan is one of the world's oldest oil producing countries and has played a significant role in the development of today's oil industry, agreements for the export of oil and petroleum products can be agreed upon.
- Moreover, a project similar to Trans-Afghanistan Gas Pipeline also known as Turkmenistan–Afghanistan–Pakistan–India Pipeline (TAPI) can be brought to cards. TAPI is presented as an example because it the most recent projected natural gas pipeline being developed by the Asian Development Bank and expected to get completed in around 2017. Pakistan and Azerbaijan can be initiated such beneficial projects mutually to enhancing the trade relations between both the countries.
- Azerbaijan has expertise in energy sector, having huge hydel power plants as well as expertise in exploration of oil and gas sector; therefore both the countries could cooperate in these areas to further enhance their bilateral relations. According to its official data (2012-13) it has 19 mega power plants which are the most advanced power system in the South Caucasus region. It has vast range of renewable i.e. solar, wind, hydro and bio-fuels. Its wind generation capacity is 800MM which translates into \$US2.2 billion KMH of electricity. Azerbaijan's solar energy generation is 1500-2000 KMH/M2 as it receives on average 2400-3200 days sunshine in a year. So the prospects of diversification of energy supplies are brighter.
- Azerbaijan can export its chemical products to Pakistan as it is in demand in the consumption market of Pakistan.
- Pakistan can export its value-added agricultural products like mangoes, dates, fruits, sports goods to Azerbaijan. Pakistan's basmati rice has a huge demand in Azerbaijan.
- The two countries also have a potential of joint ventures in pharmaceutical and manufacturing of surgical goods.
- Azerbaijani businessmen can be invited to invest in the oil and gas exploration sector in Pakistan and explore trade possibilities in agricultural value-added products.
- In terms of infrastructure development, Azerbaijan lies ahead of Pakistan and currently the Government of Pakistan is undertaking massive mega infrastructure projects attracting the

investors. Being in a better position, Azerbaijan can invest and earn from Pakistan's infrastructure development.

- Although the project of direct flights between Baku and Islamabad lies in midpoint, but both the sides share perception that such flight are vital for the enhancement of bilateral ties, people to people contact, promotion of tourism and also business activities, thus both the states are working over an alternative proposal linking Istanbul-Baku-Lahore which is under serious considerations.
- Azerbaijani visa regime is strict for countries worldwide, however, for the citizens of Pakistan and Turkey, the visa policy is open.
- Azerbaijan, by taking advantage of geo-strategic locations of Pakistan, can export their consignments through Gwadar and other ports of Karachi to SAARC, ASEAN and GCC countries.
- Opportunities that exist in cultural cooperation, many times cultural tours have been offered, but financially at present that option does not seem to be viable for Government of Pakistan. On their own, Pakistani artists, students, researchers, academicians, professional, and businessmen; are not capable of meeting the expense of such tours. Azerbaijan can initiate capacity development measures for them by inviting them and giving them opportunity to share their expertise.
- On the other side, Azerbaijani artists, students, researchers, academicians, investors are well established to be able to visit Pakistan. Cultural exchange stays as a long delayed process; it needs to be initiated because it undoubtedly is a fruitful process that eventually will take the grounds to show practical results.
- Economic relations between Central Asian Republics and SAARC countries will be a win-win situation and bring economic revolution in the region, when all the countries bridge together the business communities of regional countries with a vision to establish joint chambers.
- Right from the beginning, both the sides have been keen to further develop and consolidate the bond of friendship. Pakistan and Azerbaijan need to take effective measures to enhance their bilateral trade ties by increasing communication linkages and elimination of travel restrictions. And "Silk Road" is the main key area in this regard, through which central Asian countries are linked.
- Pakistan is famous for the production of musical instruments, and Azeri culture is very close to folk and classical Music. Pakistan has the chance to present their musical instruments in this market.

Export Promotion Strategies:

Keeping in view the market requirements, Azerbaijan's consumer preferences, competitors' strategies, an integrated product focused approach is devised to enhance Pakistan market share in this Azerbaijan. Selection of product sectors of Pakistan has been made on the basis of competitive advantages, production base, global acceptability and market demand. At the first stage five product sectors including Textile especially Home Textiles, Leather, Food, Sports Goods and Surgical Instruments have been identified. So, all trade and investment promotion activities would be primarily focusing these sectors. The following tasks must be undertaken to achieve the desired results.

- Trade diplomacy
- Trade promotion activities,
- Investment promotion activities
- Data base development
- Display centers

- Business counseling

1: Trade Diplomacy

Trade Diplomacy must be used as the most significant tool to address the issue of market access. There must be interaction at government level, facilitating B2B dialogues. In Azerbaijan, the policy making is being carried out, with a triangular thought process of Academia, Innovation and the Government. There is very strong need for lobbying at the highest level and hence it must be planned to conduct:

- Highest level interaction with Potential Trading.
- Highest level interaction with the Academia and artists.
- Highest level interaction with the Embassies and Chambers of Azerbaijan.
- Highest level interaction with the Public Sector.

2: Trade promotion Activities:

(a) Awareness Seminars

The Azerbaijani buyers lack awareness about the production capacity and export potential of Pakistani products. Product specific seminars must be conducted in major cities. The trade bodies including Chambers of Commerce & Industries, government organizations and concerned importers must be engaged in this regard. Awareness seminars must also be planned to create awareness among potential investors. The desired results from this exercise would be to reach out the potential buyers, to create awareness and to disseminate information about export potential of Pakistan and to attract the potential investors in the field of oil exploration and hydel power.

(b) Trade Fairs & Delegations

Successful entry in the Azeri market can only be possible by cultivating business contacts through frequent personal visits. To build the business relations, Azeri business culture must be focused and these relationships take time to establish. Therefore, both incoming as well as out-going trade delegations must be organized and trade fairs must be arranged for business matchmaking on both sides.

3: Investment Enhancement:

Pakistan offers over 182 million consumers, huge untapped resources, fully convertible currency, unrestricted equity, unconstrained profit repatriation, no compulsion for a local partner, no double taxation this needs to be marketed in Azerbaijan, which can be a prominent investor in Pakistan. Government and trade facilitating bodies in Pakistan must take effective steps to flow information regarding favorable and unexploited investment opportunities for Azeri investors, either through media or by arranging special meetings, conferences and seminars. The sectors identified for investment promotion are energy, infrastructure and manufacturing.

4: Data Base Development:

Complete data base must be developed of our total trade as well as, region wise and product specific data of the Azeri importers must be developed. Each company must be verified according to the scale of its operation i.e., on the basis of its annual turnover and annual imports. The database

must be shared with the leading trade bodies of Pakistan besides TDAP. Moreover, list of major Pakistani exporters of said sectors prepared and shared in Azeri language.

5: Display Center:

Display Center would be an important marketing tool. Azerbaijan would engage in serious trade talks if we have samples of the products and shared with them. And Azerbaijan will also shared their products samples with us to exchange the trade and products related specifications to enhancing the bilateral trade.

Recommendations:

Azerbaijan and Pakistan has the prominent history of political goodwill and brotherly relationship. Bilateral relations between the two countries were established 20 years ago. Now both are strategic partners. The Pak-Azerbaijan friendship was founded by two great leaders, Heydar Aliyev and Benazir Bhutto. Moreover, Pakistan and Azerbaijan are two brotherly Muslim countries with unique commonalities of historical, religious and political nature and after the establishment of the formal diplomatic relations. Currently, the need is to strengthen our economic relations and business ties and avail the existing appealing opportunities for both the countries. Following are some recommendations for the economic benefits of both the countries.

- Government of both the countries should try to initiate joint ventures in different following fields to match up the skills, expertise and resources of both the countries.
 - i) Pharmaceutical industry
 - ii) Chemistry & mechanical engineering
 - iii) Metallurgy
 - iv) Food industry
 - v) Light industry and other areas.

In all these fields, both the countries should joint their efforts, resources and expertise for making their markets more vast and global.

- Micro calculators, telephones, consumer electronics and windowpanes, oil pipes and other such products are also the famous products range of Azerbaijan. Therefore, Pakistan should obtain the technical assistance of Azerbaijan and should plan to develop such industries in our home country, initially through joint ventures and other contracts.
- In 2012, Azerbaijan's total imports of textile apparels and accessories from the world were 32,740 million⁷. On the other hand Pakistan is giant exporter of apparels to the whole world. Therefore, Pakistan apparel industry should work on Azerbaijan as the target market and must focus on this country for boosting textile exports.
- Similarly Azerbaijan is also a growing market for sports goods with upcoming opportunity that the First European Games 2015 going to be held in Baku. Pakistan's goodwill in manufacturing of sports articles cannot be avoided. So, Pakistan should plan to capture this market.
- Currently "Oil Crises" is the burning issue in Pakistan for both; domestic and industrial use, and Azerbaijan has the potential to help Pakistan overcome this crisis. Both the countries should initiate projects for oil trading, may or may not be on barter trade bases and in return Pakistan give the way for export to Azerbaijan through GWADAR port to the SAARC, ASEAN and GCC countries. On the other side, Azerbaijan has the expertise in the exploration of oil and gas resources, Pakistan should avail their assistance for exploration of these valuable assets.

⁷ ITC calculations based on UN COMTRADE statistics

- Pakistan and Azerbaijan should mutually start the efforts to make joint business forms as well as Chambers to push the business relations and dealings and make the flow of information smooth and valuable.
- Pakistan must consider the high potency and capability of generating power from hydel power plants of Azerbaijan. Pakistan should make efforts to eliminate the issue of energy crises in the country under the kind assistance of our brotherly country Azerbaijan.
- In Pakistan, there is severe need to develop infrastructure for the definite growth of business and industry and for the country's success. Pakistan should start negotiations with Azerbaijan for the investment in Pakistan's infrastructure development; such projects will be greatly beneficial for both the countries.
- Through the open visa policy and direct flights, Pakistan and Azerbaijan should try to flourish the visits of the businessmen, students, researchers, artists and tourists etc. therefore, the direct linkages of Pakistan and Azerbaijan's people would increase and in this way, our bilateral relationship would also flourish significantly.

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Prepared by: Research & Development Department

Sialkot Chamber Of Commerce & Industry